

Mitchell's Musings 2-13-12: Jolting Magnitudes

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Every once in awhile, it useful to put magnitudes on potential labor-market policies and their possible effects. The U.S. Bureau of Labor Statistics (BLS), as is well known, puts out monthly indicators of the state of the labor force. The unemployment rate receives the most media attention. A less familiar release is the JOLTS (Job Openings and Labor Turnover Survey) report which comes out with less fanfare and with a greater lag. The latest JOLTS report is for December 2011,¹ although we already have the unemployment report for January 2012.

Among other indicators, the JOLTS report provides data on vacancies reported by employers. In December, about 3.4 million job vacancies ("job openings" in the language of the JOLTS report) were found.² The JOLTS data go back only to late 2000 so we don't have a long time series for that survey. However, the lowest vacancy rate reported was 1.6% in July 2009. The December 2011 rate was, of course, higher at 2.5% reflecting the gradual improvement in the labor market since the trough.³

Labor market conditions were pretty discouraging at the trough and yet there were still some job vacancies open. That fact suggests that, just as the unemployment rate can never be zero, neither can the vacancy rate. Even in boom times, such as World War II, the unemployment rate was never zero since it always will take a bit of time for workers to find the jobs they seek, even when many job opportunities are on offer. Similarly, in Hard Times, there will always be some jobs open because it takes a bit of time for employers to find the particular workers they seek, even when many workers are available and looking for work.

Let's take 1.6%, therefore, as an approximation of the lowest vacancy rate that can be realistically expected. By December 2011, there were more job vacancies than that minimum due to the recovery. When we adjust the actual 3.4 million vacancies to take account of the irreducible minimum, i.e., when we subtract the irreducible minimum from the 3.4 million openings last December, about 1.2 million

¹ <http://www.bls.gov/news.release/jolts.htm>

² The definition of job openings is provided in the reference in footnote 1: *Establishments submit job openings information for the last business day of the reference month. A job opening requires that: 1) a specific position exists and there is work available for that position, 2) work could start within 30 days regardless of whether a suitable candidate is found, and 3) the employer is actively recruiting from outside the establishment to fill the position. Included are full-time, part-time, permanent, short-term, and seasonal openings. Active recruiting means that the establishment is taking steps to fill a position by advertising in newspapers or on the Internet, posting help-wanted signs, accepting applications, or using other similar methods. Jobs to be filled only by internal transfers, promotions, demotions, or recall from layoffs are excluded. Also excluded are jobs with start dates more than 30 days in the future, jobs for which employees have been hired but have not yet reported for work, and jobs to be filled by employees of temporary help agencies, employee leasing companies, outside contractors, or consultants.*

³ The job openings rate is computed by dividing the number of job openings by the sum of employment and job openings and multiplying that quotient by 100.

vacancies were realistically available that might have been filled. That is, they might have been filled, if only we could have found or trained the right workers and matched them to those vacancies.

Suppose we had a magic training and job matching program that would instantly find workers who would want to fill those 1.2 million vacancies and give them whatever skills were required. What would have happened to the December 2011 unemployment rate that stood at 8.5%? There are three statuses that the BLS includes in its monthly labor force report: 1) employed (has a job), 2) unemployed (essentially actively seeking work), and 3) not in the labor force (has no job and is not actively seeking one). Suppose all of the 1.2 million vacancies had instantly been filled through our magic training and matching program from the ranks of the 13 million unemployed (status #1) persons that were reported in December 2011. That filling of vacancies would have moved those folks into employment (status #2). Then instead of standing at 8.5%, the unemployment rate would have been about 7.7%. It might be noted that an unemployment rate of 7.7% would still be quite high by historical standards.

However, typically when there are gains in employment, many of those who find jobs come not from the unemployed, but from those reported previously as not in the labor force at all (status #3). A crude estimate in fact would be that perhaps a third of those adding to employment come from the unemployment and the rest come from outside the labor force.⁴ So if we had a magic training and matching program, it would likely draw in some folks, maybe even two thirds of the folks, from outside the labor force.⁵ The labor force would thus be somewhat larger since there would be more employees coming in from outside. And the ranks of the unemployed would be reduced by less than would have occurred if the unemployed had been the sole source of those filling job openings. If we assume one-third came from the unemployed and the rest came from outside, the unemployment rate would have dropped only to 8.2% from the actual 8.5% in the face of our magic training and matching program.

Sadly, although there are programs and policies that provide training and help workers match up with employers, none of them are magic. So even the drop of 0.3 percentage points in the unemployment rate would be a lot for which to hope given a feasible and aggressive program of training and matching. A drop to 7.7% would be even more out of reach.

Dropping the unemployment rate by a few tenths of a point would be a Good Thing, of course. But the next time you hear stories about how our unemployment problem is “structural,” keep these magnitudes in mind. Solving our structural problems – a supply side approach of training and matching - would help a bit. A demand-side expansion would help much more.

⁴ Arjun Jayadev and Mike Konczal, “The Stagnating Labor Market,” Roosevelt Institute, September 19, 2010. See http://www.rooseveltinstitute.org/sites/all/files/stagnant_labor_market.pdf. This study finds that during recent Hard Times, fewer than 30% of those persons transitioning to employment came from the unemployed. In an earlier period (1994-2000), the percentage was 37%. One third is roughly in the middle.

⁵ We could in theory try to confine our imaginary magic training and matching program to the officially unemployed. However, the existence of such a program would likely entice applicants who are technically counted as not in the labor force.